

Business Executives' Expectations

A Quarterly Report from The Conference Board
Based on a Survey of Chief Executives



Fourth Quarter 1984

BUSINESS EXECUTIVES REMAIN CONFIDENT; EARNINGS EXPECTATIONS ARE TEMPERED

With the overall economic expansion now well established, business leaders are less inclined than they were to report that business conditions are improving. Early in the recovery stage of the business cycle, there is a widespread sentiment that things are improving. As the recovery matures, however, it is to be expected that fewer business executives will report that current or prospective conditions are significantly better than past or current conditions. The consequence is that The Conference Board's Measure of Business Confidence rises sharply when a recovery gets under way but declines as the recovery ages. The Confidence measure is based on responses to questions relating to the direction in which economic conditions are moving, not on the state of economic conditions measured on some absolute scale of bad-to-good.

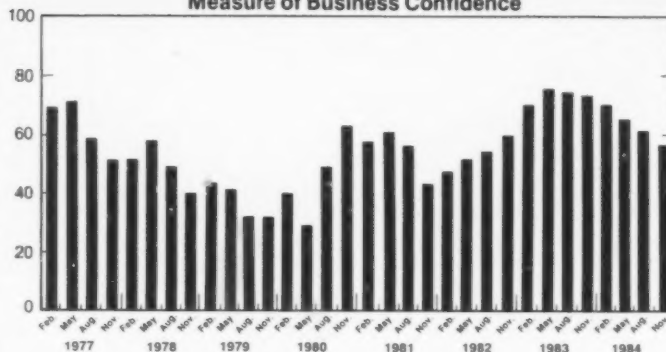
The Confidence Measure rose in 1982 and early 1983, as the economy turned around and began to expand. It peaked at 76 in May 1983 (on a scale of 0-100; see note to table, over), then edged off very slightly for the rest of that year, and declined more noticeably in 1984. In the fourth quarter of 1984, the Confidence Measure was 57, down from 61 in the third quarter. The Confidence Measure is based on responses to three questions—on the current economic situation, the economic outlook, and the outlook for each respondent's own industry. There is also a question, not counted in the Confidence Measure, about the current situation in each respondent's own industry.

In the fourth quarter, the two "current situation" scores declined appreciably, but the two "outlook" scores were essentially unchanged from the relatively subdued levels already reached. This indicated that top executives, who had already concluded that economic prospects were no longer improving significantly, have also decided that the same is true of current economic conditions. These findings presumably reflect an economic expansion that has matured. It was the substantial drop in the current economic situation score that pulled down the Confidence Measure in the fourth quarter.

The special question in every fourth-quarter survey is about respondents' expectations for after-tax profits in their own industries in the upcoming year. The latest survey found only a bit more than 50% expecting profits to improve in 1985, compared with a record 75% a year ago, and 61% two years ago. This finding is consistent with the other survey findings. It reflects the maturation of the economic expansion and consequent stabilization of measures that say that conditions are getting better.

Lora S. Collins

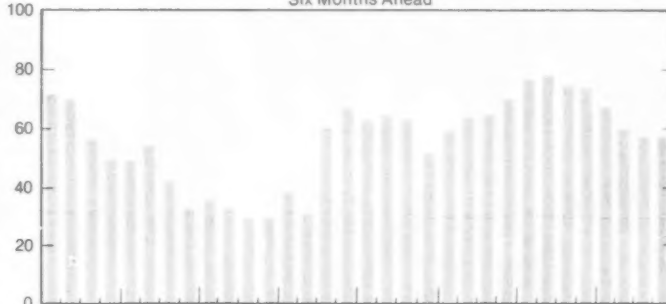
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Measure of Business Confidence



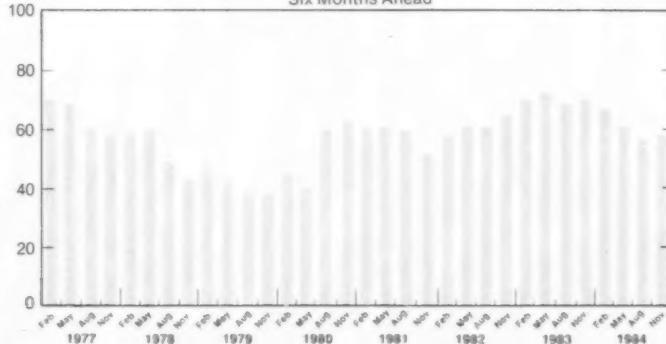
Appraisal of Current Economic Conditions



Expectations for Economy
Six Months Ahead



Expectations for Own Industry
Six Months Ahead



Profit Expectations for Upcoming Year

	10/76	11/77	11/78	11/79	11/80	11/81	11/82	11/83	11/84
Substantially better	10%	4%	2%	2%	8%	3%	9%	19%	5%
Moderately better	58	42	28	18	51	39	52	56	47
Same	21	27	30	25	22	24	20	17	28
Moderately worse	10	25	36	46	17	28	15	7	18
Substantially worse	1	2	4	9	2	5	4	1	2
Score (see note to table, below)	66	55	47	39	62	52	62	71	59

BUSINESS EXECUTIVES' EXPECTATIONS

	1981		1982		1983		1984		1983		1984	
	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	May
MEASURE OF BUSINESS CONFIDENCE	57	43	47	52	55	60	70	76	75	74	70	65
1. Current Economic Conditions vs. 6 Months Ago ..	48	26	23	30	38	44	65	76	82	80	76	75
2. Expectations for Economy, 6 Months Ahead	63	51	59	64	65	70	76	78	74	73	67	60
3. Expectations for Own Industry, 6 Months Ahead ..	60	52	58	61	61	65	70	72	69	70	67	61
4. Current Conditions in Own Industry vs. 6 Months Ago	45	33	29	32	36	44	57	67	71	70	70	67

3. Expectations for Own Industry,
6 Months Ahead

4. Current Conditions in Own Industry
Compared With 6 Months Ago

	1983		1984		1983		1984		1983		1984	
	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	May
Manufacturing	71	71	69	62	54	58	72	72	72	72	60	50
Food	61	59	60	60	60	52	62	61	55	57	52	50
Textiles	66	61	64	51	41	48	84	71	64	55	34	21
Apparel	75	68	70	56	50	54	79	80	74	68	50	37
Paper	75	70	69	54	54	59	76	79	83	79	60	51
Printing, Publishing	78	75	66	64	56	59	79	78	68	73	60	49
Chemicals	74	73	66	61	55	49	75	72	75	76	64	48
Rubber	73	75	69	58	45	55	73	71	80	75	69	61
Lumber, Furniture	67	67	73	60	50	55	76	72	75	72	57	45
Stone, Clay, Glass	62	70	75	63	49	50	65	72	73	77	68	56
Primary Metals	72	83	76	62	53	53	69	77	78	78	55	44
Fabricated Metals	71	69	71	64	59	59	74	69	66	72	63	55
Nonelectrical Machinery	71	75	71	65	63	63	64	69	73	74	63	58
Electrical Machinery	74	77	72	67	56	59	77	78	75	81	69	48
Transportation Equipment	72	75	66	66	52	61	66	79	81	78	64	63
Instruments	72	63	61	61	55	61	67	69	68	67	50	55
Mining	68	59	71	64	53	52	58	60	66	70	59	45
Construction	64	61	66	62	55	58	63	61	64	59	62	57
Transportation	72	69	74	61	55	58	73	71	72	74	65	57
Electric, Gas Utilities	66	68	63	57	62	63	65	68	68	66	69	67
Wholesale Trade	61	69	68	57	52	54	64	72	76	68	58	48
Retail Trade	73	74	67	64	62	58	75	80	67	60	64	54
Banking	67	68	66	59	59	61	72	67	69	62	66	60
Other Finance	66	69	64	48	58	68	79	69	72	50	53	63
Insurance	66	64	63	58	62	62	67	66	58	60	62	65
Business Services	77	73	69	68	64	60	76	80	73	67	68	63

The Measure of Business Confidence is the average of the scores for Questions 1, 2, and 3. There are five reply options for each question; a score for each question is determined by assigning the following values to the replies and calculating the average: Substantially Better—100; Moderately Better—75; Same—50; Moderately Worse—25; Substantially Worse—0. The score for each question, and the Measure of Business Confidence, thus can range from 0 to 100.

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Business Executives' Expectations

A Quarterly Report from The Conference Board
Based on a Survey of Chief Executives



R4105-37A

First Quarter, 1985

BUSINESS EXECUTIVES MORE CONFIDENT AND NEW HIRING EXPECTED TO SLOW

Business chief executives expressed renewed confidence in the economic outlook, according to The Conference Board's first quarter survey. But their sights don't appear to be set very high.

The **Measure of Business Confidence** derived from this survey had a reading of 76 in the second quarter of 1983. (The scale runs from 0 to 100; see footnote to the table, over.) It was still at 74 in the fourth quarter of 1983 but gradually declined to 57 by the fourth quarter of 1984. This incremental erosion of buoyant optimism - to be expected as the recovery matures into expansion - was absent in the latest survey. The **Measure of Business Confidence** rose to 61 in the first quarter of 1985.

The special question in the first quarter survey asks about labor market expectations for the coming year. Only one-third of the responding executives see a rise in their own industry's hiring this year. By contrast, exactly half of the respondents had anticipated job growth in 1984 (see table, over). A drop in labor-market expectations, together with a rise in confidence, suggests concern about the pace of activity but with a degree of reassurance that production and sales targets can be met.

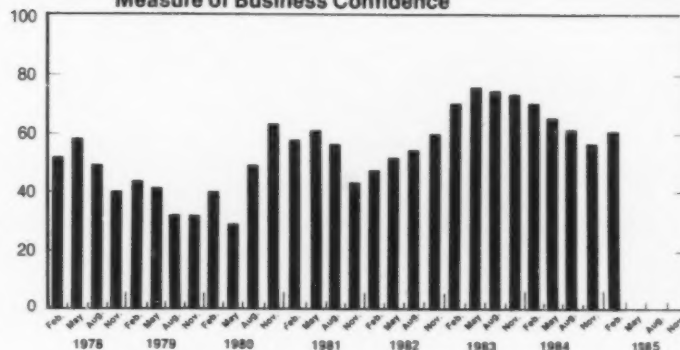
The **Confidence Measure** is based on responses to three questions - on the current economic situation, the economic outlook and the outlook for each respondent's own industry. There is a separate question, not counted in the **Confidence Measure**, about the current situation in each respondent's own industry.

Top executives in finance remain confident that the relatively good conditions of the last six months will continue. Those in construction and transportation are now a little more positive in outlook than they were three months earlier. Business leaders in trade and manufacturing generally see good improvement over the next six months. Mining executives, on the other hand, see no such turnaround.

Only one executive in five expects it will be harder to find appropriately qualified workers in 1985, just about the same as last year. In manufacturing, executives foresee even fewer problems filling staffing needs (18% versus 24% in other sectors). Given the meager growth in manufacturing employment over the last few months, and expectations that foreign competition will continue to limit production growth, it is understandable that manufacturers are less concerned about any tightening in labor markets than are top managers in other sectors of the economy.

Ken Goldstein

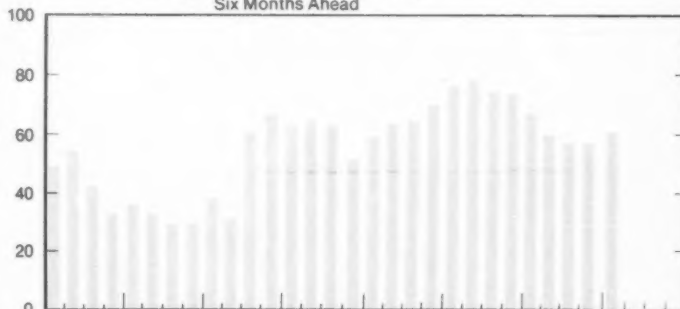
Measure of Business Confidence



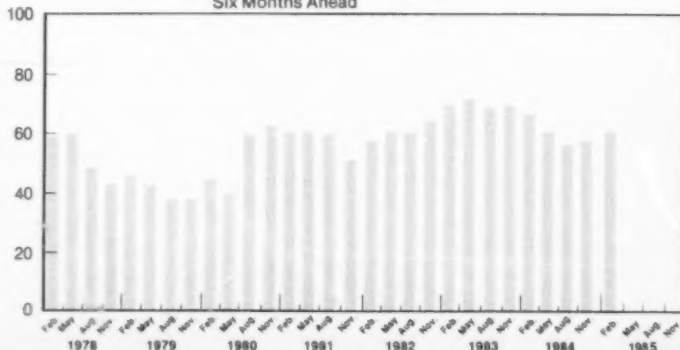
Appraisal of Current Economic Conditions



Expectations for Economy
Six Months Ahead



Expectations for Own Industry
Six Months Ahead



Expected Percent Change in Own-Industry Employment

	1978	1980	1981	1982	1983	1984	1985
Up 3% or more	8	8	8	5	11	16	7
Up 1%-3%	27	22	28	15	26	34	27
No change ($\pm 1\%$)	46	44	42	39	42	34	43
Down 1%-3%	15	18	16	24	15	12	18
Down 3% or more	4	8	5	17	5	3	6

Percent Expecting More Difficulty Finding Qualified Employees in Current Year

	1978	1979	1980	1981	1982	1983	1984	1985
All industries	38	42	36	26	13	8	21	22
Manufacturing	39	45	36	20	9	7	21	18

BUSINESS EXECUTIVES' EXPECTATIONS

	1981	1982	1983	1984	1985
	Nov.	Feb.	May	Aug.	Nov.
MEASURE OF BUSINESS CONFIDENCE	43	47	52	55	60
1. Current Economic Conditions vs. 6 Months Ago	26	23	30	38	44
2. Expectations for Economy, 6 Months Ahead	51	59	64	65	70
3. Expectations for Own Industry, 6 Months Ahead	52	58	61	61	65
4. Current Conditions in Own Industry vs. 6 Months Ago	33	29	32	36	44

3. Current Conditions in Own Industry Compared With 6 Months Ago

4. Expectations for Own Industry, 6 Months Ahead

	1983	1984	1985	1983	1984	1985
	Nov.	Feb.	May	Aug.	Nov.	Feb.
Manufacturing	72	72	72	60	50	51
Food	61	55	57	52	50	47
Textiles	71	64	55	34	21	29
Apparel	80	74	66	50	37	41
Paper	79	83	79	60	51	48
Printing, Publishing	78	68	73	60	49	61
Chemicals	72	75	76	64	48	48
Rubber	71	80	75	69	61	53
Lumber, Furniture	72	75	72	57	45	63
Stone, Clay, Glass	72	73	77	68	56	70
Primary Metals	77	78	78	55	44	50
Fabricated Metals	69	66	72	63	55	69
Nonelectrical Machinery	69	73	74	63	58	75
Electrical Machinery	78	75	81	69	48	55
Transportation Equipment	79	81	76	64	63	57
Instruments	69	68	67	50	55	60
Mining	60	66	70	59	45	36
Construction	61	64	59	62	57	63
Transportation	71	72	74	65	57	69
Electric, Gas Utilities	68	68	66	69	67	65
Wholesale Trade	72	76	68	58	48	50
Retail Trade	80	67	60	64	54	44
Banking	67	69	62	66	60	66
Other Finance	69	72	50	53	63	78
Insurance	66	58	60	62	65	71
Business Services	80	73	67	68	63	73

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Second Quarter 1985

BUSINESS CONFIDENCE DETERIORATES

Business leaders were substantially less confident in the second quarter than in the first. The Conference Board's *Measure of Business Confidence*, which is a blend of business leaders' expectations about the future and their appraisal of current economic conditions, now stands at 52, a loss of nine points over the past three months. This is the lowest reading since May, 1982. The drop in business confidence reflects both the current weakness in the economy and the expectation of little, if any, near-term improvement.

Current Economic Conditions Worsen

While real GNP growth appeared more favorable in the preliminary statistics, the May survey of more than 1,000 business leaders revealed a sharp rise in the number who reported a deterioration of current economic conditions. One-third reported that the economy is in worse shape now than six months ago compared with only one in ten in the first quarter survey. The reported weakness is very widespread (see table, over). The only areas of reported strength are construction and financial services, both sectors which typically benefit from declining interest rates.

No Improvement Over the Next Six Months

Business executives are also much less optimistic about the immediate future. While expectations have been declining fairly steadily since mid-1983, they have now reached the point where only one-third of respondents expect business conditions to improve over the next six months while fully one quarter expect conditions to worsen. By contrast, in the February survey, more than half expected economic conditions to improve and only 9% expected them to worsen.

Expectations declined sharply throughout manufacturing, as well as in transportation and wholesale and retail trade. Within manufacturing, the industries with the weakest expectations are food, textiles, chemicals and two industries with large "high tech" components: instruments and nonelectrical machinery.

Investment Plans Relatively Unchanged

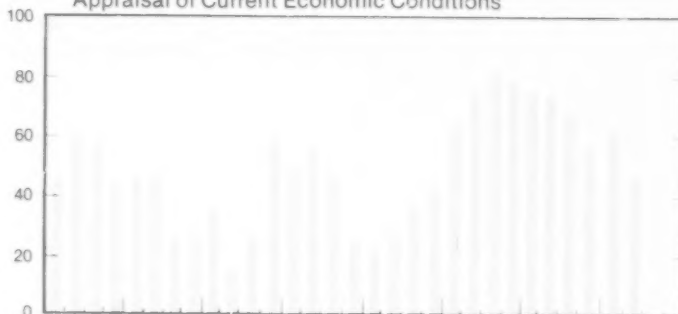
The decline in business confidence has not, as yet, had much impact on capital investment. Business leaders reported no major revisions in their 1985-1986 capital spending programs. Two-thirds of the respondents reported no change at all while the remainder were split evenly between upward and downward revisions (see table, over).

Douglas Cliggott

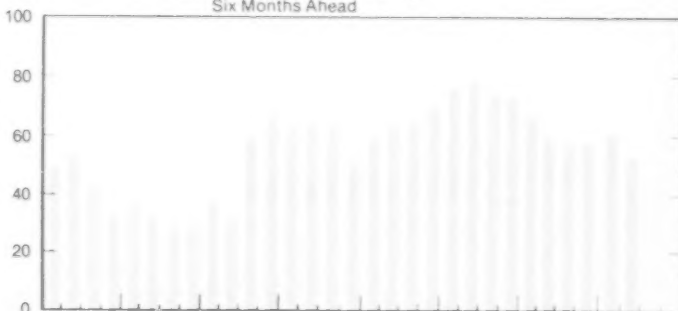
Measure of Business Confidence



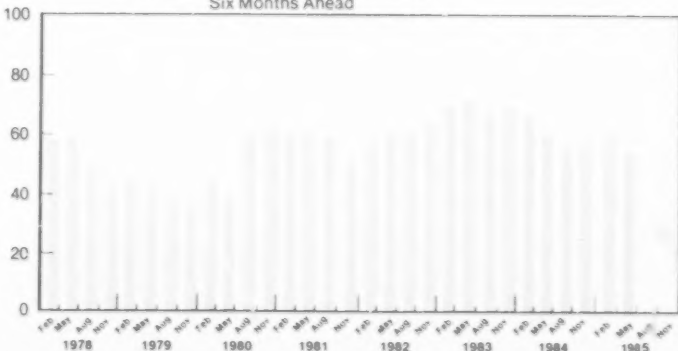
Appraisal of Current Economic Conditions



Expectations for Economy
Six Months Ahead



Expectations for Own Industry
Six Months Ahead



Reason for Upward Revision*

	Up 10% or more	Up less than 10%	No revision	Down less than 10%	Down 10% or more
ALL INDUSTRIES	7%	10%	67%	9%	7%
Manufacturing	6	9	67	10	8
Mining	5	14	43	9	29
Transportation	0	4	60	20	16
Public Utilities	5	8	72	12	3
Construction	9	4	65	9	13
Commercial and other	9	11	70	7	4

Cost of capital fell	11%
Expected return increased	20%
Expected sales volume increased	53%
Other	21%

Reason for Downward Revision*

Cost of capital increased	2%
Expected return fell	31%
Expected sales volume fell	66%
Other	12%

*Percentages do not sum to 100% because of multiple responses.

BUSINESS EXECUTIVES' EXPECTATIONS

	1982				1983				1984				1985	
	Feb	May	Aug	Nov	Feb	May	Aug	Nov	Feb	May	Aug	Nov	Feb	May
MEASURE OF BUSINESS CONFIDENCE	47	52	55	60	70	76	75	74	70	65	61	57	61	52
1. Current Economic Conditions vs. 6 Months Ago	23	30	38	44	65	76	82	80	76	75	70	57	62	48
2. Expectations for Economy, 6 Months Ahead	59	64	65	70	76	78	74	73	67	60	57	57	61	53
3. Expectations for Own Industry, 6 Months Ahead	58	61	61	65	70	72	69	70	67	61	57	58	61	55
4. Current Conditions in Own Industry vs. 6 Months Ago	29	32	36	44	57	67	71	70	70	67	62	55	57	51
Current Conditions in Own Industry Compared With 6 Months Ago								Expectations for Own Industry, 6 Months Ahead						
	1984				1985				1984				1985	
	Feb	May	Aug	Nov	Feb	May	Aug	Nov	Feb	May	Aug	Nov	Feb	May
Manufacturing	72	72	60	50	51	44	69	62	54	56	61	52		
Food	55	57	52	50	47	44	60	60	60	52	65	49		
Textiles	64	55	34	21	29	42	64	51	41	48	54	48		
Apparel	74	66	50	37	41	48	70	56	50	54	63	54		
Paper	83	79	60	51	48	33	69	54	54	59	58	56		
Printing, Publishing	68	73	60	49	61	56	66	64	56	59	62	60		
Chemicals	75	76	64	48	48	43	66	61	55	49	60	49		
Rubber	80	75	69	61	53	38	69	58	45	55	69	50		
Lumber, Furniture	75	72	57	45	63	37	73	60	50	55	69	58		
Stone, Clay, Glass	73	77	68	56	58	53	75	63	49	50	62	58		
Primary Metals	78	78	55	44	50	42	76	62	53	53	63	52		
Fabricated Metals	66	72	63	55	55	47	71	64	59	59	61	59		
Nonelectrical Machinery	73	74	63	58	54	47	71	65	63	63	58	48		
Electrical Machinery	75	81	69	48	55	37	72	67	56	59	64	53		
Transportation Equipment	81	76	64	63	57	43	66	66	52	61	68	51		
Instruments	68	67	50	55	60	50	61	61	55	61	69	46		
Mining	66	70	59	45	36	42	71	64	53	52	48	50		
Construction	64	59	62	57	63	57	66	62	55	58	60	62		
Transportation	72	74	65	57	56	42	74	61	55	58	61	50		
Electric, Gas Utilities	68	66	69	67	65	55	63	57	62	63	64	58		
Wholesale Trade	76	68	58	48	50	44	68	57	52	54	60	53		
Retail Trade	67	60	64	54	44	47	67	64	62	58	63	56		
Banking	69	62	66	60	66	58	66	59	59	61	61	57		
Other Finance	72	50	53	63	78	76	64	48	58	68	67	64		
Insurance	58	60	62	65	71	64	63	58	62	62	60	63		
Business Services	73	67	68	63	62	62	69	68	64	60	62	58		

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